

AGENDA

“The Impact of Federal Universal Service Reform On Broadband Deployment and Affordability in California”

**a roundtable discussion
sponsored by the California Broadband Council**

**2:30 p.m.
Thursday, January 12, 2012
State Capitol Room 112**

I. Opening Statement

- Senator Alex Padilla
Vice Chairman, California Broadband Council
Chairman, Senate Committee on Energy, Utilities and Communications

II. Overview of FCC Universal Service Reforms to Support Broadband

- Zachary Katz
Chief Counsel and Chief of Staff to Chairman Julius Genachowski
Federal Communications Commission

III. Impact of FCC Order on State Regulation and CPUC Activity

- Roxanne Scott
Supervisor, Policy Analysis Branch, Communications Division
California Public Utilities Commission

IV. Comments of Service Providers

V. Question and Answer

BACKGROUND

Policy Goal to Get Everyone Connected

Universal service – ensuring the availability of high quality, affordable telephone service for all Americans -- has always been a bedrock principle of telecommunications policy at the state and federal level. The goal is to enable everyone to be connected to the telecommunications network, even in rural, remote, and sparsely populated areas where it is very expensive to provide service.

Methods of achieving universal service in high-cost areas have evolved over time with changes in the marketplace and technology. When a single telephone company provided both local and long distance service, rates for customers in high-cost areas were kept affordable with revenue from above-cost long distance charges, as well as fees carriers charge each other for completing calls (intercarrier compensation). The development of competition and enactment of the Telecommunications Act of 1996 led to federal and state universal service programs funded by explicit charges on customer bills rather than embedded subsidies. The Federal Communications Commission (FCC) established the Universal Service Fund (USF) to provide support for carriers that serve areas meeting specified high-cost criteria. Like other states, California established a counterpart state program administered by the California Public Utilities Commission (CPUC), which eventually became two programs: (1) California High Cost Fund A, which provides direct support to small rural telephone companies that are under rate-of-return regulation; and (2) California High Cost Fund B, which provides support for large local exchange carriers (AT&T, Verizon, Frontier, and SureWest) for the high-cost areas of their service territories.

Support from both the federal and state programs is often necessary to cover service providers' costs and keep customer rates affordable. In 2011, carriers providing service in high-cost areas of California received a total of about \$83 million from the federal USF and about \$63million from the state programs.

Connection to Broadband Essential in Digital Economy

To date, these universal service funds have supported providing landline voice telephone service. But in today's 21st century digital economy, voice service is no longer sufficient. Access to high-speed Internet service through broadband facilities is essential for economic individuals to function in modern society and for economic growth of communities. Access to employment, commerce, health care, education, government services, and other necessities requires broadband.

Recognizing the need for all Americans to have universal access to broadband, the FCC in March 2010 released the National Broadband Plan, which included a proposal for transforming the federal universal service program and intercarrier compensation systems to support the provision of affordable broadband in high-cost areas rather than just voice telephone service. In November 2011, the FCC issued a [decision](#) adopting this proposal and redirecting the \$4.5

billion USF into a new “Connect America Fund” to support providers in high-cost areas that accept obligations to build out high-speed broadband networks. The FCC designated funding for a “Mobility Fund” to accelerate mobile broadband networks, and for a “Remote Areas Fund” for the most difficult to serve areas. The order also adopted changes to the system of charges for exchange of calls to reflect the traffic and costs of the modern network. (See [news release](#) and [executive summary](#) of the FCC order.)

Implementing Federal Changes to Further Broadband Access in California

As stakeholders continue to assess the impact of the voluminous decision – 759 pages – and some pursue court appeals challenging aspects of it, states are taking initial steps to implement the decision and determine how state universal service programs align with the federal reforms. California policymakers also are reviewing any potential impact on the California Advanced Services Fund, a state program funded with a customer surcharge that makes grants and loans for broadband infrastructure projects in unserved and underserved areas. Questions raised by the FCC decision (with paragraph references to the decision) include the following:

State Implementation Issues

What new duties and expectations does the FCC Order place on the CPUC relating to:

- designating carriers eligible for support (para. 73)
- establishing and monitoring Carrier of Last Resort (COLR) obligations (paras. 75-83)
- monitoring carrier compliance with broadband build-out requirements and the obligation to use universal service funds only as intended (paras. 110, 147)
- assisting the FCC measure and monitor carrier compliance with broadband speed and latency requirements (paras. 109-110)
- evaluating interconnection agreements and monitoring intrastate tariffs for compliance with intercarrier compensation rate reductions during the transition to bill-and-keep and protecting against cost shifting or other attempts to gain excess cost recovery (paras. 790, 813)
- for rate of return companies, monitoring broadband buildout (para. 206), response to customers’ requests for service, customer complaints (para. 208), and company requests for waiver based on need for additional support (para. 294)

Impact on State Universal Service Programs and Broadband Deployment Goals

How do federal reforms affect state programs such as the California High Cost A Fund , B Fund, and CASF? Are any changes to those state universal service programs necessary to maximize federal support for providers serving California's high-cost and unserved areas?

- How does the federal obligation to provide voice telephony as a stand-alone service, as defined by the FCC, align with the obligation of A Fund and B Fund companies to provide "basic service" as defined by the CPUC? (paras. 76-83)
- How does the CPUC's pending proceeding to revise the definition of "basic service" comply with the FCC's direction encouraging states to revise state policies on voice service and COLR obligations? (para. 83)
- Does the CPUC's pending proceeding on the A Fund program adequately address issues of rate of return carriers raised by the FCC Order? (paras. 194-294).
- How does the requirement that a carrier not use federal support for broadband deployment in a pre-existing capital improvement plan affect a carrier's eligibility for funding from the CASF (para. 146)
- How does the FCC expectation that carriers receiving support offer broadband at greater speeds to community anchor institutions (CAIs), engage with CAIs in network planning, and report on service to CAIs align with the CASF's program for funding network planning with CAIs through consortia? (para. 102)

Impact on Service Provider Plans to Deploy Broadband Facilities in Unserved Areas

Will changes to the universal service program provide sufficient incentive for carriers to deploy or expand networks?

- Do service providers anticipate that the federal reforms, combined with state universal service support, will provide greater economic incentive to deploy broadband in unserved areas than under existing programs?
- How does that economic incentive vary for each service delivery technology -- wireless, satellite, cable, etc.
- Do service providers or other stakeholders have recommendations for California policymakers to tailor state implementation of the new federal reforms in a manner that best augments California's existing broadband initiatives and public and private investments?